



Edited Transcript of ASX FY 2012 Media Q & A

16 August 2012

Andrew White from 'The Australian':

Is there any relationship between the rise in high frequency trading and relatively high volatility? And if so, is this correlation material?

Elmer Funke Kupper, ASX Managing Director and CEO:

Some people say there is a relationship between the dominance of high frequency trading in some markets and the volatility in those markets because high frequency traders can go in and out very, very quickly.

I think in the Australian market we are not seeing that. In America you might see that, in Australia I think, there is not a big impact. So I can't honestly say that we are observing that.

As I said there is a big debate in the media about high frequency trading. It's an important debate. It's quite a complex debate and I think regulators are grappling with it. I think we are in a much better position than overseas markets because of the way our market functions. So that needs continuing work. Our focus is actually much more on fragmentation. I think when a retail investor presses the button to trade or hangs up on the broker after ordering a trade, the retail investor does not really even know where that trade goes, whether it goes to the exchange or whether it gets internalised by a broker, or if a broker takes it and sells it to another broker.

I think we should be really concerned about that stuff. So fragmentation I think is actually a bigger concern right now than high frequency trading. But we do agree that we have to make sure that we really understand how high frequency traders impact on the overall market and make sure that their economics are aligned with the market place. And we are in a much better position than the United States in the way that functions here. I think our regulators have done a better job and are more on top of this than many regulators in the world and I shall compliment them for that. But of course, we are dealing with consequences of market structure change that some wish we hadn't made, but we are where we are and we have to deal with it.

Andrew White from 'The Australian':

Are you explicitly linking the introduction of Chi-X to fragmentation of liquidity in the market?

Elmer Funke Kupper, ASX Managing Director and CEO:

No, I think fragmentation has been a trend for some time in markets around the world. Of course having moved from one exchange to two exchanges is fragmentation, adding a third exchange is more fragmentation but it is just a reality of the mathematics.

Chi-X today has a market share of around 3%. In the first half of this calendar year, 25% of trades went through dark execution. And by the way Chi-X is not part of that. Chi-X is a lit market just like we are. Remember, the characteristics of a lit market, like the stock exchange, are very, very simple - everybody can get access to it, not just the people who you choose to let in. The commercial terms are known to everyone and are transparent. The rules are known and transparent so your order gets executed in a certain way. Those rules are known to everybody and they are available to everybody. That's called a lit market. Whereas a dark market, which we loosely call dark execution, has very few of those characteristics. The rules aren't known so you don't know which way your order gets executed; the commercial terms aren't known, it doesn't have ASIC oversight and in the first half of this calendar year, dark execution was between around 14 to 43% of the market and it will grow over time. But the good news is we can do something about it and if you look at our submission that we made to the regulators, there are some very simple steps we can take to make a big difference to this and then I think we are in a much better position. But we of course have to implement it; we can't just sit on our hands and watch it because that's what they did in America.

Andrew White from 'The Australian':

Can you put a figure on the cost to investors here of the increasing amount of trade going on in the dark?

Elmer Funke Kupper, ASX Managing Director and CEO:

Finance theory tells us that the most efficient place is a place where all liquidity arrives together; it makes a lot of sense doesn't it? It is somehow an obvious thing to say but of course it is no longer what happens. So how do the investors pay a price for things moving away from a single marketplace? That's by the bid offer spreads widening. There is some research that Alex Frino from the University of Sydney did and it's been widely used now, that says that if 20% of the volume moves away from the lit market, the bid offer spreads increases by one basis point. Now people might say who cares about one basis point, but one basis point is three times what we charge to execute trades. One basis point is a lot. Our fees are 0.000015 and we charge both sides so make it three zeroes. You know it's very small percentages multiplied by big volumes so you get big impacts. We know fragmentation is not a good thing and we should do something about it and we can and I think there is now an increasing will to do something about it.

Gareth Hutchens from the 'Sydney Morning Herald':

You were saying that in Australia we should continue to have a single settlement and clearing desk, if that was to be removed from the ASX what would the financial impact be?

Elmer Funke Kupper, ASX Managing Director and CEO:

OK, so in 2012 our revenue from cash equities clearing, which is really where the main debate is, clearing, was \$45 million. So the cost to the entire Australian economy is \$45 million, so the question is if you get competition in, what would that do to that number?

I don't know what the number will be but the challenge for regulators here is to make sure that the maximum impact will be something less than that. I mean if the total fees are \$45 million how much would we cut our fees by? That's anybody's guess of course and we are surely not going to be public about that because we may not cut them at all, we haven't really done too much work on that.

I think the challenge for regulators is to make sure that when we make these changes there is an actual net benefit to the economy as opposed to a reduction in the ASX fees. That is a very simplistic way to look at it. If we

look at competition in equities trading, we have got competition and everybody knows it. We have cut our fees by \$17 million when competition was introduced, in fact before competition was introduced.

The cost to the market of implementing that new market structure is well above \$17 million, so that means most of the brokers and investment banks have now gone backwards. They asked for it but now they have gone backwards and everybody is facing higher technology and compliance costs and we now have lots of questions about fragmentation, high frequency trading and whether all of this is good for retail investors.

So if you now translate that to clearing- \$45 million - the question that we ask is, is there a net benefit to the Australian economy? Because if the answer is yes, then you have got a good reason to introduce competition.

A couple of warning points. It is only \$45 million so let's take a third, that's \$15 million. Let's say we cut our fees by \$15 million. That's \$15 million for the entire Australian economy. It may sound like a lot of money to people but it's really nothing compared to the financial cost of running financial markets and the risks that we take.

We hold on average \$2.6 billion in collateral from our clients in the clearing house. \$2.6 billion, we are talking about \$15 million over here. It is not a relevant number and on top of that of course if we do start to change it, it becomes a very complex structure and the question is what risks are we taking to the financial stability of the country? I think we should be very careful with it. Our submission basically said we are unconvinced but it's not up to us. We just want to make sure people do their homework because the homework wasn't done when it came to equities. We have got to do our homework here. The risks here are materially bigger. One other interesting hint is there is no other major single market in the world that operates multiple clearing houses in the way that has been envisaged here.

The only market that has multiple clearing houses and clearing houses connecting to each other is Europe but that of course was driven by the idea of creating a single economy out of multiple countries. The United States, the most fragmented equity market in the world, operates a single clearing house. Canada a single clearing house, Brazil a single clearing house, Hong Kong, Singapore and the list goes on. And so you need to have a really good reason to change this. But it is not up to us, we just put our submission in, we point out that someone has to do his or her homework and the homework can't be 'Gee if we introduce competition that ASX number might come down'. Well it might or it might not but the cost could be very significant and we have just got to be very careful with that and that's all our submission says. It is very plain English.

Louise Weihart from 'Mergermarket':

I am just going to change it to more of a global picture and if I could ask a couple of questions on how you see yourself securing your future as the markets globalise. Now you did mention co-locating services with other exchanges like Singapore, is that one of the ways, and which other exchanges would you be looking at in the shorter term?

Elmer Funke Kupper, ASX Managing Director and CEO:

I think the reality for financial markets are increasingly global and yet we continue to run in most markets with a single integrated domestic exchange. There are reasons for that because the plumbing around this is quite difficult and exchanges have tried to merge and have been, as I sometimes say, spectacularly unsuccessful at making it happen. So we have had Singapore/Australia obviously, we had New York/Frankfurt, we had London/Toronto and Nasdaq/London. We have tried many different combinations and they have all failed.

Our view is that exchange consolidation will continue - that's the long-term answer to your question. We think we will end up with a couple of global powerhouses but how that will happen we don't know. When it will happen, we don't know either. We just know that people have tried and so far have not succeeded. So what do you do in the meantime? In the meantime you invest in servicing your clients locally, which are the global investment banks and local banks, and you work with other exchanges where that makes sense. And so the initiative with Singapore, it was just a sensible way for both markets where we could see benefits to both our clients. You will have seen that Singapore announced something with London to cross-quote equities so you can trade London equities in the Singapore time zone and Singapore equities in London time zone. These are ways exchanges try to work together to have meaningful initiatives that serve their clients and you should assume we are looking at some of those to see if they make sense for our market.

Louise Weihart from 'Mergermarket':

Any others you could name in the short-term?

Elmer Funke Kupper, ASX Managing Director and CEO:

No, we only name what we have announced which is Singapore.

Peter Hiom, ASX Deputy CEO:

There's collateral management ...

Elmer Funke Kupper, ASX Managing Director and CEO:

Oh good point, collateral management. A very good point. Good to be corrected.

Peter Hiom our Deputy CEO is just pointing out that we have signed an agreement with Clearstream which is a subsidiary of Deutsche Börse to develop a collateral management solution for Australian clients.

What that allows them to do is use the collateral that we hold in Austraclear or the fixed income securities and in CHES, or the equities, to collateralise transactions. Right now collateralisation is largely cash. We have a lot of collateral sitting that is unused, lazy collateral if you will. We can use that. We are first building a solution for the Australian market to use the collateral that we have to collateralise Australian transactions, whether it's over-the-counter or the exchange, but of course a lot of those clients have businesses overseas as well so why couldn't you use a security that is held in Austraclear to collateralise a transaction in Europe, or a security held in Europe to collateralise a transaction in Australia. And why is that helpful? Because our clients, particularly in banks, are doing a tremendous amount of work to optimise the use of capital and optimise the use of collateral under the new regulatory regime of the world. So build it for Australia, connect it to the rest of the world. It's another example of a very practical initiative that global clients value because it helps their business and hopefully we can charge for it and we can make some money.

Louise Weihart from 'Mergermarket':

What about joint ventures or something at that level given that the deal with Singapore didn't go ahead and I mean assuming the Government changed in a year and a deal like that could go ahead, would you welcome something like that?

Elmer Funke Kupper, ASX Managing Director and CEO:

The question with joint ventures is always whether it is something that you need to do together to service your customers. The world is littered with attempts of joint ventures that haven't particularly worked very well. I think in the exchange world there have been many MoU's, many attempts at ventures but at the end of the day, you have to ask yourself if the solution you are providing will add value to your end client. So exchanges cooperating tend to be the way it works and the relationships, for example, Chicago Mercantile Exchange has a relationship with Singapore and a relationship with Brazil, that are mutually beneficial and makes a lot of sense. We are doing something with Singapore in technology, Singapore does something with London in cross-quoting of equities. Those things make sense but a joint venture implies a legal structure. The moment you talk legal structures in the exchange world, you are talking very heavy national regulation and complications. That's why it is hard because once you go down that path you may as well put the exchanges together which has been tried and failed so far. So we don't see many joint ventures in our world but we do see relationships where we can do things cross border to benefit our clients.

Louise Weihart from 'Mergermarket':

And the second part of the question, if the Government changed and a merger was allowed to go ahead would you welcome something like that?

Elmer Funke Kupper, ASX Managing Director and CEO:

Well I am not sure. I shouldn't comment on mergers and acquisitions. I think I am not sure that has anything to do with a change in Government. I think it's got everything to do with whether Australia is clear on its role in the world, what it really takes to be a financial centre. Whether we can satisfy the regulators. You may recall at the time of the Singapore merger, the Reserve Bank had some concerns in relation to our post-trade infrastructure, our clearing and settlement infrastructure and the things that they raised had really nothing to do with the merger. It was just that the merger brought them up. They looked at them and said 'oh that doesn't look right'. So we have been working with the Reserve Bank to say we should fix that anyway, it's got nothing to do with the merger. We should just fix it and that will now be done. So a lot of the sort of practical things for reasons not to progress will be dealt with. Whether that means you can ever do anything between exchanges is a very, very different question. Can it make the economics work? Does it make sense for your clients? Will governments allow it and so forth? I don't think it is necessarily related to who is in Government but about whether we can convince people that it is the right thing to do for the country, and I think both sides of politics will make sensible decisions. Last time that failed, and we don't have any plans for a second time right now.

Louise Weihart from 'Mergermarket':

I have one more question and I am sorry M&A-related. I imagine you wouldn't speak about Link Market Services but you have had a lot of growth in technical services and infrastructure and data stuff and all of that, the on-again, off-again rumour about IRESS has re-emerged, would it make sense for you to take over IRESS or something like them or a GBST, and do you have any acquisition plans in that space?

Elmer Funke Kupper, ASX Managing Director and CEO:

Why would I comment on that if I don't comment on Link? So I am not going to comment on that. I think we have a good relation with IRESS. We are a complementary business. We own a little over 19% of the company. We are comfortable with that and that's where it sits in reality.

Louise Weihart from 'Mergermarket':

Is there an acquisition strategy in that space though, not specifically IRESS?

Elmer Funke Kupper, ASX Managing Director and CEO:

Well if you look at our growth in the last 12 months we have done well without that and so our strategy is to work with others like IRESS, companies like GBST and other people who provide services to our clients to make sure that we can all grow our business by growing the marketplace, so that's our main focus right now. I mean we don't have any M&A plans there.

Stan Corrie from ABC Radio National:

Have your views on high frequency trading changed or been influenced by, I suppose, your heavy investment in the data centre which of course is a key part of the high frequency trading world?

Elmer Funke Kupper, ASX Managing Director and CEO:

No, it hasn't. I mean if you are a market leader it is easy to accuse someone of self-interest. Yes, we have real shareholders who we need to look after. I think we have to realise that we didn't design the market structure that we live in today. We were given that market structure. In fact, we argued against it, not successfully apparently. So for us, we have to succeed in a world that we have been given but we are very active contributors in discussions with the regulators in the broader financial market about the impact of high frequency trading and the impact of fragmentation, dark execution or dark pools, because we believe we have an obligation to do that and our job is to have a long-term successful business, not a short-term successful business.

So we want the regulators to make the right decisions here on dark execution. We have made some suggestions that we believe are relatively straight forward and hopefully they will be taken up by the minister and by ASIC but it's up to them. And on high frequency trading, we are active contributors to the debate recognising that high speed trading is not going to go away because that's just investments in technology. Advancement of technology creates that so the question is what parts of that are the good parts that provide real liquidity to the market and are done in a smart way, and which parts of those have dangerous consequences for a market that we should reign in. It's sometimes hard to distinguish between the two. I think ASIC understands it very well. You know it's not often that we compliment regulators but I actually do think ASIC understands this. The question is what do you now do and that's not so easy on both of these topics. I think on fragmentation and dark execution it's easy. High frequency is not so easy. I think we are in a better position than many other markets because I think the economics of high frequency trading in this market are a little healthier than they are elsewhere. So some of the pricing and fee structures that we see overseas which are, let me use a technical term, insane I think, and don't work here. I think the way ASIC charges its regulatory cost is smarter than has been done overseas and in fact some overseas regulators have started to look at us on how to deal with this.

So I think there is more work to be done there, I think ASIC is on top of it and we should allow them to get on. Whatever comes out we will adopt our part. Our business is about being successful long-term and whether it is a bit more or less now actually is irrelevant. We want retail investors and fund managers to have confidence in our market and we will live with whatever regulations and sometimes you have a strong view, like in dark execution, and we will give that view. I think that is the honest answer. But we are not in a bad position. I think one of the

things is that high frequency trading has caught people's imagination in the press recently. Every time I open the paper there is something on high frequency trading.

Yes there is a big debate to be had here and yes there are some parts of it that we probably should get to and yes that might cost us some money as well and we are okay with that. But we shouldn't be distracted by that from what I call fragmentation, which is a bigger risk to our business and our market and is simply liquidity being removed from a lit market. If you look at the US market, if you look at the New York Stock Exchange, you should ask them rather than me, but our guess is that if you look at the New York Stock Exchange almost none of the retail volume actually gets executed on the exchange. So if you are a retail investor in the United States do you even know that your flow goes to a broker who aggregates the flow, sells it to another broker who uses an algorithm to trade against another algorithm and if all of that fails they might send it to the exchange. That's what is happening. I don't think that is right and I think we should do something about it and I think we still can.

I think we might now move on to some questions over the phone.

John Durie, from the Australian:

I know you have talked about this a lot. If you talk to fund managers they say one of the reasons they go to dark pools is because they feel they are being crowded out of the lit market because of the high frequency trade so it's a chicken and egg argument.

Elmer Funke Kupper, ASX Managing Director and CEO:

John is an active follower of this debate. I think there is some truth to that but fragmentation of course is not new and has been going on for some time. I think for example, brokers internalising retail flow has got nothing to do with high frequency trading.

Fund managers, right to the example I gave about the US on retail flow, are not even hitting the market anymore. It has got nothing to do with high frequency trading. Fund managers being nervous about being front-run, so a high frequency trader sits in front of their order all the time. There is some truth to that and I think we need stronger controls around that. You have got to be very careful in this debate of course to use a circular argument because the more money gets removed from the lit market the harder it becomes for a lit market to be efficient for the people who are still there. The easier it becomes for a dark pool to be attractive, the harder it becomes for a lit market to be relevant, the easier it becomes for a dark market to be relevant and before you know you end up like the United States. And so we can't let that happen. So to me it's about a combination of measures that both puts a box around the problematic side of high frequency trading and making sure that we halt an increase in fragmentation and if we do those things I think we have a reasonable market.

I think if you look, if you ask fund managers, 'do you agree with the proposals we have just made to the regulators on fragmentation, on dark execution?' I don't think they have got any problem with it.

John Durie, from the Australian:

OK so people say the biggest problem is that high frequency trades they execute just an enormous amount of, they put through an enormous amount of messages per execution and so it's easily fixed, you just put a small charge per order and that would sort of kill them overnight which is why you don't have high frequency trades in Hong Kong where there is still a stamp duty. One final question, given your role at the ASX, there has been a bit

of a push for a financial services enquiry as we haven't had one for a while. Is that something that you would support, primarily as a means of working out how we are going to fund growth and so forth in Australia?

Elmer Funke Kupper, ASX Managing Director and CEO:

I think it's probably a good idea. I saw Ian Narev talk about it, who I think is probably better placed than I am to comment on it, being one of the largest banks in the world now, and I think having a very strong place in funding the future of our country so I think it's probably a good time to pause and think about it.

If you look at our business it probably has a little bit of relevance for us but it has a little bit of relevance because one of the things we say about clearing and settlement in our submission is can you just make sure you really think about it before you go for the quick answer which when it came to equities trading didn't work and maybe we should pause there as well and just say is it really worth going through that pain now or should we just take it off the table for a couple of years and think about it before we do it?

Now you would expect me to say that but I would say it even if I wasn't running the ASX. I mean the total fees are \$45 million in clearing so let's cut a third off that. What are we talking about for the Australian market? I think we are not thinking straight about these problems and I think a little bit of a pause and really think about it in the long term interest of our country. We want to be relevant in Asia and we keep copying the United States and Europe, because okay that's interesting, but how about Singapore and Hong Kong who do not do what we are doing and yet we want to be closer to them. They may be more relevant. I think a pause is not a bad idea. Let's fix the things that are problematic right now and we have just talked a lot about those and let's pause on the rest because frankly it's not really worth it right now until we have really thought about it and to me that almost sounds sensible and if an enquiry does that well that would be terrific.

John Durie, from The Australian:

How about some sort of fee on orders?

Elmer Funke Kupper, ASX Managing Director and CEO:

Well right now the ASIC already charges on a combination of orders and trades and that helps a lot by the way because for those of you that don't understand this, high frequency traders put a lot of orders out in the marketplace but they may not do all trades. Normally the order to trade ratio in Australia is about eight times, something like that, eight orders for one trade.

High frequency traders can do over 100 or even more. So if you charge them a bit per order as we do here that does have an impact because of course they throw these orders in the marketplace and ASIC has to look at them. I don't think it is a bad idea to look at things that create sensible economics. If you ask me do we need a financial transaction tax, no. If you ask me should the regulatory charges be passed onto retail investors and fund managers, the answer is no. They didn't ask for this market structure. They didn't create it. They shouldn't pay for it. But some of those things might work John.

Liz Tay from IT News:

I have got a couple of technical questions. Firstly last year the ASX said it would install 500 cabinets in the ALC for clients and another 100 for internal use. After that you said you would scale back your lease of the ALC so how many cabinets do you plan on installing internal right now and will they also serve the SGX?

Elmer Funke Kupper, ASX Managing Director and CEO:

I think we are approaching 100 cabinets now. I think we are just below that - 59 clients. We are in discussion with a few parties who would bring quite a few cabinets in one go. We deliberately waited a bit with that just to make sure the place was up and running and we serviced the most valuable part of that business because remember having cabinets in a data centre is not, I mean it's helpful, but it's not where you make your money.

You make your money as an exchange from connecting people to trading platforms and to each other. We call those liquidity cross-connects and liquidity services. You are connecting to platforms that allow people to trade and get information. Just hosting data centre services which is racks, power, air conditioning is OK but it's not the greatest business because it is very aggressively priced so we have gone slow on that to make sure we get the growth from the things which are most valuable which is our core clients and that's what you have seen. So that means we have got a lot of space in the data centre and we are in discussions with several people to see if we can attract them to it and you know that can be commercially attractive for them as well as for us.

Liz Tay from IT News:

So in terms of the SGX cabinet, will they be managed by you or are they going to be in the upstairs part of the data centre?

Elmer Funke Kupper, ASX Managing Director and CEO:

Highly technical question. Peter?

Peter Hiom, ASX Deputy CEO:

I don't know the answer to that.

Elmer Funke Kupper, ASX Managing Director and CEO:

I don't know but probably my guess is in our part of the data centre because at the end of the day it's actually about giving clients access to a market, so you have to connect. What you are doing is connecting people to markets and so we would be in their data centre and they would be in ours. If you ask me is that a pipe, a box, a server, thankfully we have got people who are much better than I am.

Liz Tay from IT News:

Could you tell us a bit more about how the co-location deal with the SGX actually works, what is the biggest benefits for customers, is it speed or access?

Peter Hiom, ASX Deputy CEO:

It's access. So it's really just giving clients the ability through the infrastructure they have already invested in the Singapore data centre to access other servers down in Sydney through that infrastructure. So without having to deploy you know additional infrastructure into that client, they can very quickly be provided access to our market and the same works in reverse.

Elmer Funke Kupper, ASX Managing Director and CEO:

It's remote access basically. That's what it is, in a very sophisticated way.

Liz Tay from IT News:

So do you expect to make a lot from it, in terms of revenues?

Elmer Funke Kupper, ASX Managing Director and CEO:

No, these are useful additions but don't expect them to be a separate line in our P & L if that's what you are asking.

These things in many ways, we experiment with to see if these things can work, give clients benefits, connecting exchange with each other. The nice thing is the marginal cost of doing it is very low so therefore you don't need much revenue for it to be worthwhile.

Malcolm Maiden from Fairfax Media:

I have got two questions. Do you agree with Matt Williams of Perpetual that front running is market manipulation? Do you think that front running should be allowed whoever does it? And second, you say that we made mistakes on the first round of structural changes and we have to make sure we don't make mistakes again as we confront another set of choices. What mistakes are you referring to there? I mean the main change I thought was Chi-X. Chi-X still has got a relatively small market share and it is as you say, a lit market, it's a HFT market. It is an example of fragmentation but at least it's out there, at least we know what it is doing.

Elmer Funke Kupper, ASX Managing Director and CEO:

OK so the two questions, would I ever agree with Matt Williams. I think we have to recognise that people deploy trading strategies that are allowed under the law and allowed under the regulations and so long as they are there, it will happen. If you ask me if it's pure front running and scalping, I am obviously not a fan of that.

Malcom Maiden from Fairfax Media:

Do you think one of the HFT strategies are basically front running, it certainly looks like it.

Elmer Funke Kupper, ASX Managing Director and CEO:

Yes there are HFT's who try to be very smart about what orders they see in the marketplace and their algorithms trade against the insights they have on those orders and they do that smarter and faster than anybody else. The question is, is that a smart trading strategy? You might think that buying a stock is a good idea, you hold it for three months. They might think the good idea is to trade it at 150 microseconds so my distinction is more about the difference between people who provide genuine liquidity and people who don't. I am not against people trading in and out of the market but if a large part of the market activity is driven by people who do not hold overnight positions and don't have a position at 10am and don't have a position at 4pm, if that gets too large it becomes a problem for the overall market.

Malcolm Maiden from Fairfax Media:

Like HFT, HFT do not hold overnight positions.

Elmer Funke Kupper, ASX Managing Director and CEO:

That's correct and if that becomes too big then that is a concern and that is what Matt is starting to point out. You know, the fact that people have very smart fast trading strategies is hard to stop and some of that is very legitimate of course. In fact all of it is legitimate today because the rules are the rules and everybody lives within the rules, you just have people who exploit them better than others.

On your second question, when you think about mistakes, I think the mistake that was made is that if we had done a proper P & L of that change for the Australian economy, what we would have found is not beneficial to Australian financial markets and the economy - both as a P & L. So have the fee cuts been worth it, given the costs of making it happen? And has our balance sheet improved and the balance sheet is about confidence of retail investors, confidence of fund managers, a position in the Asian region and if I look at the accumulation of changes which is fragmentation, internalisation, Chi-X and so forth? I think if we had our time again we probably would think about it a little bit harder.

The introduction of Chi-X per se and currently the 3% market share is just one thing but it is an accumulation of things that over time I think are unhelpful and so it's the totality of the market structure rather than just Chi-X and I think we are a bit naïve to think that when the ASX cuts its fees by \$15 or \$17 million dollars, that's a great outcome because in the short term it might be true but in the long term it might not help our markets and we look at the P&L and the balance sheet for the country. And I think we are going to make the same mistake in clearing.

Malcolm Maiden from Fairfax Media:

How much did you say you pulled your fees down again by sorry?

Elmer Funke Kupper, ASX Managing Director and CEO:

Well on a like for like basis it's about \$17 million and at the time they were about 51, I am looking at my CFO is that about right? So call it 30% right and this is why I draw the analogy and in our review to go from clearing we said the same thing. So let's do the same thing on clearing, you know just as an academic exercise. \$15 million for the entire Australian economy, do you really believe that the cost of implementation will be less than \$15 million? And that we don't take a greater risk with financial stability in our position in Asia. I look at and go, I am not so sure but wiser people than I are going to have to decide that. That's basically, we put it as a question with a few facts that say think about it hard.

Neil Hume from the Financial Times:

I was wondering if you could give us some indication with regards to the soft start to that new financial year, how much of this is down to return investors staying away and how much this is due to business shifting over to dark pools and cash equities.

Elmer Funke Kupper, ASX Managing Director and CEO:

I think it is largely investor sentiment and just general absence of investment opportunities, confidence and volatility. So the answer is not 'gee our volumes are down in the first month because the money has all gone to dark pools,' no, no that is not true. In fact when volumes are well down a little bit more comes back to the market because dark pool trading opportunities go down as well so it's nothing to do with that, it's purely the market as it is today.

Neil Hume from the Financial Times:

And is that what you have seen, you have seen trading come back to the ASX?

Elmer Funke Kupper, ASX Managing Director and CEO:

If you look at 2012 crossing levels were down a little bit so yes normally if volumes are well down in a subdued environment then the level of crossings, which is transactions which don't get executed through the trading

engine, that goes down a bit as well, simply because that's just a feature, you know the bigger the market the more opportunity there is to cross. That's just the way it works mathematically, it always happens. Where we are going with the question we don't know. Now what we are seeing at the moment are \$3.5 billion a day is market sentiment and a general absence of reasons to trade and invest. That's what it is and that's all it is.

Nathan Lynch from Thomson Reuters:

Just a question about wash trades. This is something that ASIC has said they are noticing a real spike in that, potentially it's been up four-fold. Wondering if you are monitoring that and are you concerned that it might be affecting the volume weighted average price of securities.

Elmer Funke Kupper, ASX Managing Director and CEO:

I see Peter who is a real expert here frowning as he tries to understand the question.

Peter Hiom, ASX Deputy CEO:

No, no I think I understand the question. I am not sure we are in a position to comment on whether we think an increase in wash trades which is a transaction executed by the same party on both sides of the trade which is not allowed. It is different from a cross. What the impact that's having on the VWAP calculation? I would take you back to Elmer's point before, I would be more worried about the implications for the VWAP of dark execution than I would be about wash trades specifically because it's the absence of the ability for the entire market to access those platforms that deteriorates the opportunity for anyone to get VWAP if they are not able to access that liquidity.

Nathan Lynch from Thomson Reuters:

Is it something that you do monitor or has that been passed over now to ASIC?

Elmer Funke Kupper, ASX Managing Director and CEO:

That's all ASIC's responsibility now.

Nathan Lynch from Thomson Reuters:

Also just to get an idea of the magnitude of the challenges facing stockbrokers, it's sort of been said they can't tap what's going on in dark pools and they also can't tap what's going on in HFT and they are obviously pretty concerned about the reduction of their business in recent years. If 25% of the market is in dark pools and potentially that much again is HFT, what level of overlap is there because that could mean that 50% of the market they can't tap now or it could mean 25% depending on the amount of overlap.

Elmer Funke Kupper, ASX Managing Director and CEO:

So how much of HFT? HFT is between 15 and 25% of the market. Dark execution on average is 25%, can you add them up or is there overlap? There will be overlap but we are actually not quite sure what that overlap is because of course dark pools are dark for a reason, it means we can't look into them either.

Peter Hiom, ASX Deputy CEO:

And of course some brokers, I mean it's not an absolute statement to say all brokers cannot access all dark pools or all HFT, that's just, it's more complicated, unfortunately. I wish it was that straight forward but it's much more complicated than that because of course some of the brokers operate in the dark pools so it's not that they are somewhere else, they are actually executing transactions through their own.

Elmer Funke Kupper, ASX Managing Director and CEO:

I think part of the comment here is that small brokers are really struggling with all of this.

Nathan Lynch from Thomson Reuters:

The broking firm might operate the dark pool but that's not helping the brokers who are struggling at the moment.

Elmer Funke Kupper, ASX Managing Director and CEO:

Yes and we see that.

And they voice it and we agree with them. I think there is one more question because we are way out of time.

Patrick Durkin from The Australian Financial Review:

Just wondering your reaction following on the theme here to the computer trading error in the US at Knight Capital. You say we are better regulated here but I just wonder whether we are really immune, investors can be confident we are immune to something similar happening here or as you say whether there is this tendency at the moment for brokers who are feeling this pressure to use this whole high frequency trading issue as a bit of a scapegoat to their own woes?

Elmer Funke Kupper, ASX Managing Director and CEO:

I guess knowing yes, can anyone guarantee right now that we will not have an issue with an algorithm going haywire in Australia. I think the answer is you can't guarantee that because those algorithms are not being monitored the way the exchange is being monitored of course.

Now we also know it is not as big a share of the Australian market as it is elsewhere so I don't want to scare people away here but you can't guarantee it because of course the whole thing about algorithmic trading and dark pools is that they are unregulated and in fact dark pools are really unregulated private exchanges, that's what they are.

So no, you can't guarantee it but the good news is that we are not in the same situation as the United States where the Knight Capital algorithm went haywire. They didn't detect it in time and they lost \$440 million in no time and went under, about 140 stocks on the New York Stock Exchange traded in a very volatile way, six stocks the trades got cancelled, the other ones were told to live with it basically and the New York Stock Exchange had to pick up the pieces. That's the world we have created. We are not in that position here. We are in a much, much better position today and I think our regulators understand that that is not where we are going to go. So I have got a lot of confidence in this but of course we have to make a couple of decisions that may not be popular with some parties but we are going to have to make them. And by the way if those decisions get made, they apply to us as they apply to everyone else so we may have to make some changes to some of the products we offer in order to comply with those rules and we will do that. There is no problem with that.

Patrick Durkin from the Australian Financial Review:

Just finally you said you had a good hearing from ASIC and also the Minister, I presume you are talking about your meeting with Bill Shorten, can you give us any sense of what the Government's attitude is to these issues at the moment?

Elmer Funke Kupper, ASX Managing Director and CEO:

No I think the Government is listening, I think Bill Shorten is listening but of course this is why we have regulators at the end of the day and I think the regulators are getting on top of this. I think they will make the right decisions ultimately and we are hopeful they will adopt our position but it's not up to us, it's up to them.

That's where I think we have to call it a day. We spent most of our time talking about anything but our results but in light of everything we have just talked about these were solid results in what is an extraordinary environment both in activity levels and regulations and we will continue to debate the things we have just talked about. Thanks for your time.